

**CABINET
04 JANUARY 2022**

BUDGET 2022/23 - UPDATE

Cabinet Member Cllr Andrew Moore, Cabinet Member for Finance
Responsible Officer Andrew Jarrett, Deputy Chief Executive (S151)

Reason for the report: To review the revised draft budget changes identified and discuss further changes required in order for the Council to move towards a balanced budget for 2022/23.

RECOMMENDATION: To consider the updated budget proposals for 2022/23 for the General Fund, Capital Programme and Housing Revenue Account and agree to circulate to the Policy Development Groups for further input prior to the formal recommendation back to Cabinet and Council.

Reason for the recommendation: The Local Government Finance Act 1992 places a legal requirement on the Council to approve a balanced budget. The first draft of the General Fund budget for 2022/23 indicated a deficit of £1.072m. This report updates that deficit to the current position of £1.427m and proposes measures to consider to achieve the statutorily required neutrality.

Relationship to the Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Financial Implications: The current budget for the General Fund shows a deficit of £1.427m. In addition, as shown in the October report, a funding deficit is also projected in future years. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels. The Capital Programme shows over £20m investment is planned for the General Fund and a further £11m for the Housing Revenue Account. The overall position for the HRA remains affordable at this time, although critical aspects of the budget are still being finalised.

Legal Implications: None directly arising from this report, although, as above, there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment: In order to comply with the requirement to set a balanced budget, management must ensure that the proposed savings are robust and achievable. We must also ensure that the assumptions we have used are realistic and prudent. Failure to set a robust deliverable budget puts the Council at risk of not being able to meet its commitments and casts doubt on its "going concern" and VFM status.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report.

Climate Change Assessment: The GF, Capital Programme and the HRA all contain significant investment in order to work towards the Council's Carbon Reduction Pledge.

1.0 Introduction

- 1.1 On 26 October, the first draft of the Medium Term Financial Plan covering the period 2022/23 to 2026/27 for the General Fund (GF), Capital Programme and Housing Revenue Account (HRA) was presented to Cabinet. The GF indicated a deficit of over £1.6m by the end of the 5-year timeframe. The Capital Programme showed significant investment, subject to appropriate business cases and funding available, in the decarbonisation of our estate and investment in the development of additional housing, and therefore an associated increase in the capital financing requirement. The HRA showed a balance position in the early years of the MTFP, but a budget deficit in the latter years.
- 1.2 This report provides an updated position across those three strands of the Council following a detailed budgetary review. It also includes the outcomes of the “Provisional local government finance settlement: England, 2022 to 2023” published (16 December).
- 1.3 Within this report is also a summary of the results of the budget section within the Residents Survey recently undertaken. The budget feedback will be considered at the next round of Cabinet and PDG meetings in January and all of the other feedback will be reviewed (including any associated action plans) in a Cabinet report in March 2022.
- 1.4 The “Provisional local government finance settlement: England, 2022 to 2023” has just been published (16 December) giving further funding information for next year. The government have indicated that Core Spending Power will rise by an average of 6.88% on the assumption that Councils raise their council tax by the maximum permitted without a referendum. This includes social care authorities who may raise Council Tax by up to 3%, and so the benefit to District Councils is demonstrably lower. For MDDC, our specific increase in Core Spending Power is 0.82% including increasing Council Tax by £5. Therefore, after accounting for inflation, which is currently running at 5.1%, and lost income due to Covid-19, the true impact is a reduction in spending power.

2.0 2022/23 General Fund Budget – Revised Position

- 2.1 The draft budget deficit for 2022/23 has increased to £1.427m. The main reasons for this is:
 - Income levels recovering from Covid-19 slower than originally anticipated;
 - Increased assumptions around inflationary uplifts;
 - Reduced income from investments – particularly due to slippage in 3Rivers;
 - Investment in IT systems and vehicle fleet being funded by Revenue instead of Capital;
 - Partially offset by increases in Grant funding, one-off utilisation of Earmarked Reserves and Council Tax income.
- 2.2 The current position is included with **Appendix 1**, which shows the movement at service level.

- 2.3 Although the Chancellor announced an end to the Public Sector Pay freeze in 2022/23, there is no clarity on what the agreed pay award for 2021/22 will be, and negotiations for the 2022/23 uplift have yet to begin. Therefore, the assumptions within the budget remain as before.
- 2.4 The Council has a 30-year cyclical programme of essential property maintenance. After close scrutiny, it is felt that elements of this programme can be delayed until future years and further use of Earmarked Reserves can mitigate any increase in the budget requirement for 2022/23. As the deferred expenditure will still need to be incurred, it is not an overall saving and will not be a benefit during the period of the MTFP.
- 2.5 In 2021/22, a vacancy management factor of £150k was included. This has been removed due to the in-year monitoring showing that the cost of agency cover exceeds the value of salary savings.

3.0 Local Government Funding Settlement

- 3.1 It was expected that the funding settlement would cover a multi-year period, most likely 2022/23 to 2024/25. However, the settlement announced covers only 2022/23 and is largely a roll forward of previous year's settlements.
- 3.2 The New Homes Bonus grant has previously been announced to cease after 2022/23. The Government remains committed to reforming New Homes Bonus to improve how housing growth is incentivised, and their response to the consultation on the New Homes Bonus will be published in the coming months. The 2022/23 allocation increased to £719k from £460k as previously announced. This is due to the inclusion of a further year's allocation. The increase of £259k has been utilised to reduce the current budget deficit.
- 3.3 The Rural Services Delivery Grant will be £490k, frozen at the same level as in 2021/22. There is no clarity on this funding stream beyond 2022/23.
- 3.4 The Lower Tier Services Grant introduced in 2021/22 has been decreased to £99k. This is a loss to the GF of £80k due to amending the distribution mechanism to ensure that no authority receives less in their overall Core Spending Power. There was no commitment for this funding in future years.
- 3.5 A new grant was announced, named 2022/23 Services Grant with MDCC's allocation being £153k. This is similar to the Lower Tier Services Grant newly announced in 2021/22 in that it is unring-fenced and provides funding in recognition of the vital services delivered by Local Government. Although it also includes funding to cover the ongoing cost of the increase in employer National Insurance Contributions, it is announced as one-off.
- 3.6 A summary of these grants is as follows:

	2021-22	2022-23	Movement
	£ millions	£ millions	£ millions
New Homes Bonus	0.959	0.719	- 0.240
Rural Services Delivery Grant	0.490	0.490	-
Lower Tier Services Grant	0.179	0.099	- 0.080
2022/23 Services Grant	-	0.153	0.153
Total Grant Funding	1.628	1.461	- 0.168

Change (£ Millions)	- 0.257	- 0.168	
Change (% Change)	- 13.63%	- 10.28%	

Note: In addition to these core funding streams shown above, it should also be noted that the one-off Covid-19 Grant of £408k has not be reissued in 2022/23. Furthermore, the Income Compensation Claim scheme ceased in Qtr 1 2021/22, which we had estimated £570k. **Therefore the level of government support has actually reduced by £1,146k year-on-year.**

- 3.7 It was confirmed that Councils could raise Council Tax by 1.99% or £5 whichever is higher. The previous assumption was based upon the 1.99% increase, and therefore increasing by £5 instead of 2% provides an additional £22k. Adding to this, the collection rate has been increased to 97.5% (from the previously assumed 97%) based on current performance. This has contributed an additional £33k. The taxbase has increased by over 4% providing additional income of £124k. Finally, the assumptions included within the 2021/22 budget have proven to be prudent and therefore we are forecasting to collect £377k more than anticipated – this will be used to aid the 2022/23 budget.
- 3.8 Government have confirmed that no further funding relating to Covid-19 will be provided. This leaves the Council exposed to the reductions in service income, particularly within Leisure and Car Parking which currently sum to approximately £500k on pre-covid levels.
- 3.9 The Funding Settlement was silent on details of how the Business Rates reset / revaluation, due in 2023/24, will happen. However, the continuation of the Devon Business Rates Pool was confirmed, which should benefit the Council through paying a lower levy on any growth. A refinement of the current Business Rates forecast has reduced the growth by £115k. However, this remains subject to further revision when the NNDR1 form is completed in January. This will then be available for the final draft of this budget.

4.0 Resident’s Survey – Budget Results Summary

- 4.1 During November, the Council undertook a Resident’s Survey. The feedback from which will be reviewed (including any associated action plans) in a Cabinet report in March 2022.
- 4.2 However, part of that survey included specific consultation on the 2022/23 budget. The budget feedback will be considered at the next round of Cabinet and PDG meetings in January. A summary of the budget related responses is included below:
- Over 40% of responses indicated they agreed that the Council’s services provide value for money
 - 38% said the most important priority when making spending decisions was providing basic statutory services, 21% tackling climate change, 19% said providing affordable housing.
 - 46% said when making spending plans the council should protect services even if it means it will need to increase council tax and fees and charges. 29% said the Council should share services with other organisations.

- 52% think the Council should seek to generate additional income from commercial investments while 49% think this should come from planning and building control.
- Of the discretionary services provided by MDDC there was a fairly even balance about which services should be protected. 67% favoured parks and open spaces, 63% public toilets, 52% town centre regeneration.
- Of our statutory services 93% felt waste and recycling service was most important service followed by food and water sampling with 68%, and homelessness at 60%.

4.3 The current proposed budget reflects much of this, through:

- Protecting services – no service reductions are currently included, although there clearly remains a significant deficit to offset;
- Significant investment in decarbonisation of our estate and additional housing;
- New Partnership arrangements have been established for service delivery.

4.4 Income generation is however difficult in the current climate as highlighted in paragraph 3.8 above. This is further constrained by the restrictions Government have placed upon Councils investing in Commercial Income. In most circumstances inflationary increases are applied to service fees and charges.

4.5 Income from Planning Development is largely controlled by Government as planning fees are set nationally. However, it has long been the view that all development service activity, including enforcement, should be funded by the fees paid by those who benefit from development proposals. In light of the residents’ survey, we will write again to our MPs to seek support for allowing local authorities the ability to charge a variable rate for planning matters in order that local Council Tax payers don’t have to subsidise development activity.

5.0 Next Steps

5.1 A significant GF budget deficit still remains and therefore further action is required. The Cabinet and PDG committees will therefore be challenged to find further budget reductions to the value of £500k. Budget reductions can consist of reductions to expenditure or increases in income. This value is apportioned over the various committees in line with the value of the baseline budget of the services reporting to them, as follows:

	2021/22 Budget	% Share	Share of £500k Requirement
Cabinet	5,070,767	37%	185,600
Community	4,330,771	32%	158,400
Environment	4,163,771	30%	152,300
Economy¹	(314,682)	-2%	(11,500)
Homes	416,787	3%	15,200
	13,667,414		500,000

¹ The Economy PDG has a credit baseline budget, therefore any saving or additional income identified will increase the credit, hence the credit target.

- 5.2 This further budget review process can be assisted by reviewing the service unit draft budget proposals shown in **Appendix 2**.
- 5.3 In addition to the above challenge for budget reductions the following options are being considered:

Current (Round 1) budget gap	£1,427k
Less: Cabinet / PDG Budget Challenge	£500k
Release of Earmarked Reserves	c.£250k
Increased income recovery from Covid-19	c.£300k
Reintroduce a Vacancy Factor	c.£100k
Use 2022/23 NHB Allocation to support budget	£???
Further savings yet to be identified	£???

5.4 It is critical that the challenge to find £500k of additional budget reductions is embraced. Without these new options, the Council may be forced to consider taking more from reserves and risks leaving the Council in an imprudent position. **Appendix 3** provides the current assumptions of monies being put into and monies being taken from Earmarked Reserves.

6.0 Capital Programme

6.1 A revised version of the Capital Programme is included in **Appendix 4**. This includes the latest forecast from services, the updated business plan for 3 Rivers Development Limited, and refinement of the Housing Development programme within the HRA. Specifically:

- Items related to ICT infrastructure and systems have been refined. The proposed move to hosting systems and software on cloud based solutions as opposed to on premise servers has resulted in a shift from Capital to Revenue;
- The refreshed Business Plan from 3 Rivers has been reflected – this has delayed investment and the associated returns due to delays in the Council committing to further developments while it reviewed the governance and financial arrangements of the company.
- The delivery of housing development has been refined following further work and the latest survey assessments. This has reduce the borrowing requirement and the associated impact on the HRA.

7.0 Housing Revenue Account

7.1 The HRA has also been through the same detailed refresh since the October MTFP position was presented. The revised position now shows the HRA at an almost breakeven position for 2022/23 – see **Appendix 5**. In summary, the main movements are:

- A small increase in the establishment is proposed reflecting the planned increase in the number of tenants arising from the increase in housing units;
- A reduction in forecast income due to increasing the number of voids and higher Right-to-Buy sales during 2021/22. Importantly, the

assumption that rents will increase by 3% remains at present. This will be finalised at the February Cabinet;

- The number of new build units are decreased in line with the revised developments included within the Capital Programme. However, the associated capital financing costs have also reduced accordingly. Further revisions may occur prior to setting the budget in February.

7.2 Officers are still considering finalised positions on the overall cost of:

- The new fire prevention regulations;
- The decarbonisation programme;
- The new housing strategy.

Once this work has been further developed, the likely level of rent required will be reviewed and finalised at the January Homes PDG and recommended to Cabinet.

8.0 Conclusion

8.1 Along with many Local Authorities, the financial challenges facing this Council are immense. A difficult position with significant uncertainties surrounding future funding, has been compounded by the need to maintain essential services whilst losing critical income streams.

8.2 Councils, however, need clarity and certainty about how all local services will be funded over the next few years and beyond. The opportunity for a multi-year settlement has been lost for another year at least. Furthermore, the Council is now left to deal with the lasting impact the COVID-19 pandemic has had on both service demands and revenue raising.

8.3 The significant budget deficit remaining is a challenge and the identification of a further £500k of budget reduction is critical to balancing the budget for 2022/23.

8.4 Moving forward Members and officers need to look to the pressures over the next few years reflected in our MTFP and our need to address ongoing pressures which cannot be satisfactorily addressed by the one-off use of reserves.

8.5 In order to conclude the statutory budget setting process, this updated draft budget position will go through Cabinet, another round of PDG's, Scrutiny, and a final meeting of the Cabinet before being agreed at Full Council on the 23 February 2022. During this period officers will continue to identify and examine further savings possibilities that can reduce the longer term budget gap.

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Background Papers:

[2022/23 LGA Provisional Local Government Finance Settlement¹](https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2022-to-2023-consultation)

Circulation of the Report:

Leadership Team, Cabinet Member for Finance, and Group Managers

¹ <https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2022-to-2023-consultation>